

VZCZCXRO3769  
PP RUEHPT  
DE RUEHBY #0490/01 1350720  
ZNR UUUUU ZZH  
P 140720Z MAY 08  
FM AMEMBASSY CANBERRA  
TO RUEHC/SECSTATE WASHDC PRIORITY 9561  
INFO RUEHBN/AMCONSUL MELBOURNE PRIORITY 5251  
RUEHPT/AMCONSUL PERTH PRIORITY 3533  
RUEHDN/AMCONSUL SYDNEY PRIORITY 3445  
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY  
RHEHNSC/NSC WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 CANBERRA 000490

SENSITIVE  
SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [SENV](#) [AS](#)  
SUBJECT: RUDD DELIVERS FOR WORKING FAMILIES

¶1. (SBU) SUMMARY: The Rudd Government's first budget has slowed the growth of government spending and hit "the rich" to combat inflation, while delivering its election promises and looking after Rudd's "working families." There is means testing of family benefits, tax cuts, spending on the ALP's health, environment and education initiatives, less favorable treatment of the private health insurance industry, and investment of the surplus in infrastructure to boost productivity. As part of the budget, the Government has packaged some of its measures as a "Working Families Support Package." The Australian Labor Party (ALP), as it promised, has delivered a budget surplus "at least" 1.5% of GDP - the surplus is 1.8% or A\$21.7 billion. The Government says it is a "tough but fair" budget which reigns in irresponsible government spending and will help secure Australia's long-term economic future. The Budget has bolstered Rudd's claims that he is an "economic conservative." The budget has forecast declining inflation but slower economic growth and a rise in unemployment from the current very low levels. END SUMMARY

"WE ARE DOING WHAT WE SAID WE WOULD DO"

¶2. (U) At 19:30 on May 13, Treasurer Wayne Swan delivered his 2008-09 budget address to the House of Representatives. He said it was a budget that combated inflation - at its highest level in 16 years - while looking after "working families" and honoring the ALP's election commitments. Australia faces the countervailing forces of a slowing world economy and inflationary pressure domestically due in part to booming terms of trade which is predicted to increase by 20% over the next year. The budget's centerpiece is a "Working Families Support Package" which delivers the tax cuts the ALP promised during the campaign, and invests in education, affordable housing, child care and support for carers. The budget surplus satisfies the GOA's earlier promise of being "at least" 1.5% GDP - it is 1.8% or A\$21.7 billion. Most of this and next year's surpluses will be invested into three new "nation building funds": education, health, and productivity boosting infrastructure. For the next year the budget forecasts inflation to fall from 4 to 3.25 percent economic growth to slow from 3.5 to 2.75 percent, and unemployment to rise from 4.2 to 4.75 percent. New spending is entirely offset by spending cuts. Growth in spending is 1.1 percent - its lowest level in nine years. Under Howard and Treasurer Peter Costello, budget growth averaged 4 percent over the previous four years. As promised, the GOA has not increased taxation as a share of GDP - it has actually declined from 24.7 to 23.8 percent, and individual taxes will be cut by A\$47 billion over the next four years, mostly according to Swan to benefit lower-income families. Swan also announced a comprehensive review of the Australian tax system, which he pledged to conclude by the end of 2009.

SWAN PLAYS ROBIN HOOD; WHACKS PRIVATE HEALTH FUNDS

13. (U) A family tax benefit for a stay at home parent whose partner works and the Baby Bonus paid to new mothers will be means tested - households which earn over A\$150,000 will no longer be eligible for these payments. The luxury car tax on cars costing more than A\$57,000 will be increased, the fringe benefits tax regime will be tightened and the tax exemption for crude oil condensate will be scrapped. An Education Tax Qfor crude oil condensate will be scrapped. An Education Tax Refund will be funded by redirecting tax cuts proposed (by Howard) for those earning more than \$180,000 per year. The threshold for the Medicare Levy Surcharge will be raised meaning that significantly more "working families" will not be penalized through the tax system for not signing up to private health insurance.

#### CLIMATE AND ENERGY TINKERING

14. (SBU) The budget provides A\$686 million between 2008-2012 for programs to address climate change, with A\$133 million to be spent in 2008. The the effort to reduce Australia's emissions includes the establishment of an emissions trading system (A\$9.3 million in 2008), establishment of an A\$500 million clean coal fund, putting A\$227 million into alternative energy, and an out-year A\$100 million Green Car fund. Greenpeace and other groups, including the Green Party, harped on the budget for emphasizing clean coal over other renewable technologies, but there is going to be significant government support for a range of technologies, including advanced solar and geothermal. The Australian Geothermal Energy Association (AGEA) was surprised and angered, however, to note that the A\$50 million Geothermal Drilling Program does not come into being until 2009; one industry contact told embassy that was the last item cut from

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the budget. AGEA has claimed this will slow down new exploratory projects being planned by at least a year. On water, Climate Change Minister Penny Wong's previously released A\$12.9 billion plan to protect existing water resources, expand water conservation, and develop new water sources was fully funded.

15. (U) Energy giant Woodside Petroleum is one of the budget's biggest losers, with the west coast oil company expected to lose the largest share of a previous A\$2.5 billion tax break for producing condensate in the Northwest Shelf and onshore areas. Condensates will now be charged the same excise rate as other oil production.

#### NOT A LEFT-WING BUDGET

16. (SBU) COMMENT: As Swan said on May 14 in remarks at a National Press Club luncheon, this budget reflects a "modest tightening" of fiscal policy for Australia; it is not an inflationary budget, but the onus for watching inflation remains squarely with the Reserve Bank of Australia. Some economists expressed disappointment that there weren't greater cuts, but most agreed the uncertainty in the global economy (in particular in the US) and the credit crunch reduced the need for deeper cuts. Swan also stressed that contrary to former Treasurer Peter Costello's assertion that Swan was the luckiest incoming treasurer ever, the Howard Government left the ALP with a poor economic situation, with inflationary pressures building in the last 18 months of their time in office.

17. (SBU) With this budget, the Rudd Government has delivered for "working families" and generally satisfied economists, particularly those critical of the growth of "middle class" welfare under the Howard government. By producing the biggest budget surplus (as a proportion of GDP) in almost a decade and reigning in spending, Rudd and Swan have lived up to their claims of being "economic conservatives." Some economists doubt the budget will put downward pressure on inflation. Indeed, Swan hasn't cut spending as savagely as

the Howard government did in its first budget. On the other hand, inflation and economic growth is forecast to slow and unemployment is forecast to rise, so deeper cuts may have increased the risk of a hard economic landing.

18. (SBU) More important than the surplus, tax cuts, or spending cuts is the change in direction in this budget from the Howard/Costello ones of recent years. In establishing the three funds for infrastructure, education, and health, Swan was clear that spending decisions would remain with the GOA, but the commitment not to make expenditures under them for the next year should help reduce demand in the short term. It also helps bank the windfalls from the resource boom for future needs, instead of giving handouts to the wealthy as the ALP (and many others) charge was the practice under Howard/Costello. Notwithstanding some "Robin Hood" headlines, it is not a left-wing budget - it does not seek to radically redistribute income or impose burdens on business; means testing social benefits is not soaking the rich. Rather, it reflects Rudd's cautious, pragmatic approach to economic management.

STETTENBAUER